Can the Toronto Region Meet these Surprisingly Robust Long-Term Economic Forecasts?[1]

by Dr. Frank A Clayton, PhD

The Toronto Region has recorded an impressive economic performance in term of employment and population growth over the past decade or more compared to most competitive North American urban regions, including Montreal, Boston and Chicago.

These strong fundamentals have spurred a great deal of building construction and attracted real estate investors from around the world -- and produced some seemingly very optimistic predictions for the future. But there is no guarantee that the Toronto Region will achieve these robust levels of population and employment growth.

This article examines why Toronto has had it so good, and how long the good times will continue.

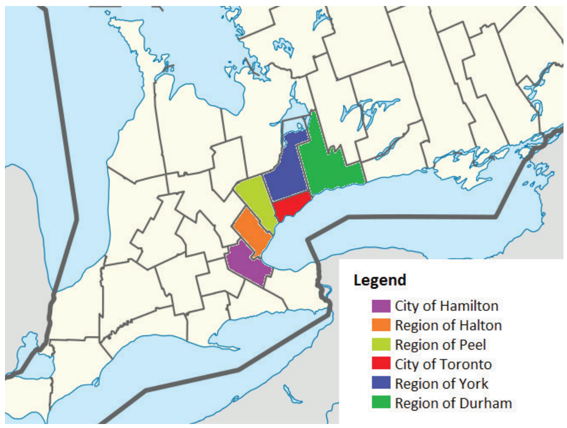

ILLUSTRATION: Natural RX, modified from File: Canada Ontario location map.svg, Wikimedia Commons

Focus on the Toronto Region – Not the City of Toronto

The focus is on growth prospects for the Toronto Region as a whole.

The Toronto Region continually ranks as one of the top urban regions in the world in which to live, work, and conduct business. Unfortunately, the media often misconstrues these accolades as referring to the City of Toronto alone, to the neglect of the outer 905 areas.

There is no question that the City of Toronto is a very important part of the Toronto Region. In 2011, it had 44% of the Region's jobs and 40% of its population. However, the corollary is that 56% of the jobs and 60% of its population are found in the 905 areas.

Even more significant, statistics for the 2001-2011 decade indicate the vast majority of growth in the Toronto Region (Greater Toronto and Hamilton Area, or GTHA) has been outside the City of Toronto:

- The City accommodated just 15.5% of the 526,000 jobs created in the Region during the decade; and
- The City accommodated just 14% of the 1.04 million additional people living in the Region during the decade.

Despite the surge in population and employment growth in the central part of the City of Toronto, the expectation remains that the 905 regions will continue to account for the bulk of the Region's employment and population growth over the next two to three decades.[2]

I want to add my voice to that of the Toronto Region Board of Trade: "*that Toronto's economic strength comes not just from within the City's borders but also from the Greater Toronto Area*".

The Board also notes that "*city regions are now the economic engines of countries, and the Toronto region is no exception.*"

Toronto Region Board of Trade's *2014 Toronto Scorecard* (Toronto CMA)

Toronto Scorecard is an annual report published by the Toronto Region Board of Trade (TRBOT), with research support from the Conference Board of Canada, comparing the economic performance of the Toronto Region (Cen-sus Metropolitan Area) against more than 20 other global urban regions.

For its 2014 Toronto Scorecard, TRBOT for the first time prepared two sets of forecasts for the Toronto Region's economy up to the year 2035:

- The base case forecast or 'business as usual' scenario based on current trends and known investment projects including only phase 1 of Metrolinx's The Big Move; and
- The 'competitive' scenario, which assumes:
  - ◊ Metrolinx's phase 2 of The Big Move is implemented;
  - ◊ more than 70% of the existing municipal infrastructure gap in roads, water and wastewater systems is filled;
  - ◊ productivity in key industrial clusters rises; and
  - ◊ there is a better matching of skills with jobs in the human capital area.

As a first step in the proactive direction, the Board has released a companion economic vision and strategy report.

Comparison with Hemson's Forecasts for the GTHA for *Places to Grow*

The table on page 5 contains employment and population growth for the Toronto Region as published in TRBOT's 2014 Scorecard for the Toronto CMA and compares them with the reference forecast for the larger GTHA recently prepared by Hemson and utilized for the Government of Ontario's Places to Grow planning exercise.

Under both scenarios in TRBOT's 2014 Scorecard, the news appears good for the real estate and development sectors in the Toronto Region, with the demand for both employment space (commercial, industrial and institutional) and housing continuing to be robust.

The population is anticipated to rise by an average of between 120,000 and 127,000 persons annually — up from about 100,000 per year — and the average annual growth in employment is in the 50,000-57,000 range.

The TRBOT forecast supports and goes beyond Hemson's robust growth forecasts prepared in 2012.

However, The Toronto Region's economic performance has not been all rosy under the 2014 Scorecard's microscope. From the perspective of real Gross Domestic Product (GDP)/income per capita and labour productivity, the

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Forecasts for Average Annual Growth, Toronto Region

	Hemson (GTHA 2011-2036)	Toronto Region Board of Trade (CMA 2012-2035)	
		Business as Usual/ Base Case Scenario	*Competitive Scenario*
Employment	45,000	50,000	57,000
Population	111,000	120,000	127.000

Sources: Toronto Region Board of Trade, *Toronto as a Global City: Scorecard on Prosperity - 2014*; Hemson Consulting Ltd, *Greater Golden Horseshoe Growth Forecasts to 2041*, November 2012

Toronto Region "*is still dwarfed by the economic powerhouses of San Francisco, Boston, Seattle and Dallas*" (page 11).

Under the base case scenario, the Toronto Region continues to lag its U.S. counterparts in terms of income per capita and labour productivity. In the competitive scenario, proactive measures are taken to reduce this gap and raise incomes of Torontonians relative to competitive regions.

How Realistic are These "Good News" Scenarios of the Toronto Region's Growth Performance?

My reading is that the economic future of the Toronto Region is highly dependent on net migration and the Region's role as a global financial centre. Both face some challenges.

1. Will rising migration cause population in the Toronto Region to increase by an average of between 120,000 - 127,000 persons per year to 2035?

I agree that the pace of population growth has been and will continue to be intrinsically tied to the flow of future immigration, and that population growth in the Toronto Region is a key driver of economic growth. The Board does not lay out its assumptions of future immigration levels to Canada and the shares that will locate in Ontario and the Toronto Region, respectively.

Under the Hemson scenario, though, immigration to the Toronto Region is expected to rise sharply between the years 2011 and 2041 from 99,000 to 141,000 persons due to rising immigration to Canada and a rising share of the immigrants being attracted to Ontario. To put this latter assumption into context, Ontario's share of Canada's immigration fell from nearly 60% in 2002 to about 40% in 2012 as more immigrants located in western Canada. I suspect future immigration to the Toronto Region may be overstated by both Hemson and TRBT under the base and reference scenarios, given the continued shift in economic activity to western Canada.

2. Will the financial sector experience solid growth and benefit from the Region's brand as a global financial centre as the Board projects?

There is no question that Toronto's financial sector has been an important anchor, contributing, directly and indirectly, to the performance of the Toronto Region's economy.

TRBOT's Economic Strategy report states that economic growth in the Toronto Region between 2001 and 2012 "was mainly driven by the Financial Services cluster" (p. 24). We may not be able to count on the financial services sector to single-handedly propel the economy of the Toronto Region, even underthe Board's base case scenario for two reasons. First, there will be increasing competition from established global centres such as London and NYC. Second, the international expansion of Canadian banks may lead to a corresponding decentralization of jobs.

To sum up, I think that TRBOT is right that the "*Toronto [Region] needs bold action to realize this report's economic vision*".

Its <u>base case</u> scenario appears overly optimistic about future economic growth. There is no guarantee that the Toronto Region will achieve the robust population and employment growth being forecast, as competitive regions proactively move to improve their economic performance.

To even begin to aspire to the outcome of the Board's <u>competitive</u> scenario, regional leaders would need to implement all of the identified proactive policies, in a coordinated way.

This only has a chance of happening if a strong system of regional governance is implemented for the Toronto Region.

Don't hold your breath.

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NOTES:

1. The Toronto Region refers to the economic region centred on the City of Toronto which Statistics Canada defines as the Toronto Census Metropolitan Area (CMA). This region incorporates the vast bulk of economic activity within the area known as the Greater Toronto Area (GTA), a planning conception, which encompasses the City of Toronto and the Regions of York, Peel, Halton and Durham. Planners now are often adding the City of Hamilton to the GTA (the GTHA). The analysis and comments in this article apply whether the object of discussion is the Toronto CMA, the GTA or the GTHA.
2. Total population and employment in 2011 and its past and future growth for the GTHA are taken from Hemson Consulting Ltd., *Greater Golden Horseshoe Growth Forecasts to 2041*, November 2012 ("Hemson").
3. Toronto Region Board of Trade, *Toronto as a Global City: Scorecard on Prosperity – 2014* ("Toronto Scorecard").
4. Toronto Region Board of Trade, *Toward a Toronto Region Economic Strategy: Economic Vision and Strategy Report for the Toronto Region*, 2014 ("Economic Strategy report").